



Hong Kong Economic & Trade Office
The Government of the Hong Kong Special Administrative Region
香港特別行政區政府香港經濟貿易辦事處

**Speech by the Chief Secretary for Administration,
The Honourable Mrs Anson Chan, CBE, JP
at the Luncheon Co-Hosted by
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Hong Kong Trade Development Council and
Hong Kong Economic and Trade Office, Toronto
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Ladies and Gentlemen,

1. A fascinating book that appeared in the shops last year was "The Discovery of Slowness" by Sten Nadolny, a reflection on the life of early Arctic explorer Sir John Franklin. It contained some haunting scenes in the fearsome splendour of the far north of Canada, but that is not my main reason for recalling it. Through observation of Franklin's life and times it provided telling commentary on our own lives - times filled with the rush and tumble of events - and it gave a quiet reminder that it is the still waters that run deep, that the things that are formed to endure are those that are crafted by time.

2. This afternoon I would like to reflect on two particular things that time has crafted to endure in our own age, Hong Kong's friendship with Canada and Hong Kong itself.

3. Our links have been forged firmly over more than a century. The great railway that knitted your country together also joined Canada to the economy of the Pacific basin, within which Hong Kong was already a major hub for trade and commerce. In the last war, Canadian soldiers stood bravely by Hong Kong, a sacrifice that is not and will not be

forgotten. Since then, increasing flows of people between us have added to trade and commerce the ties of culture, ideas, education and arts.

4. For me personally, this is my third official visit to your country. I came first in 1992 as Secretary for Economic Services, again in 1994 as Chief Secretary for Hong Kong under British Sovereignty, and I return now as Chief Secretary for Administration in China's Special Administrative Region of Hong Kong : new title, same job. Each of these visits has been important, and I have much appreciated the warmth and consideration that have been shown to me. But I am deeply conscious that I am just one of many hundreds of thousands people from Hong Kong and Canada involved in the web of exchanges between us. Indeed, the significance of my visits derives from the strength and the depth of those exchanges.

5. The question that I'm here to address is whether - following Hong Kong's historic transfer of sovereignty and in the aftermath of the more recent meltdown of Asian markets - whether the conditions remain that will sustain our exchanges and our friendship in the years ahead.

6. Let's look first at the economic conditions. Has Asia gone from miracle to meltdown and is Hong Kong being carried down the plughole with the run-off?

7. Well, I feel that the "miracle" headlines reflected irrational exuberance on the part of speech writers and columnists - and, to be fair, on the part of political leaders too. The troubles now being faced are serious but they are not grounds for irrational despondence. What was happening in Asia was simply what happened in Europe and America years ago, the establishment of patterns of trade, investment and industrialization that brought growing wealth to fuel further development. What has happened in the latter half of 1997 demonstrated that where markets are not free, where market regulation is poor, where special interest gets protected, distortion of the market takes place and growth cannot be sustained. Financial practices built on false assumptions have come unstuck.

8. Sorting out the mess will be a painful process. But, just as Asian economies were able to benefit from the technology and trade of America and Europe, and so industrialize much faster than those who had only their own trial and error to draw on, so too in the current financial crisis. Asian countries don't just have their own experiences to draw

on, but a wealth of ideas and examples of what works around the world to draw upon and help sort things out. And behind all the financial problems of today remains the fact that most of the Asian economies are rich in resources and human capital, and the fact that slowly increasing wealth and access to world markets among hundreds of millions of people across Asia will remain a key component in world-wide economic growth.

9. So I don't see the new millennium as heralding the end of Asia's economic hopes. I don't underestimate the difficulties that those whose finances are in difficulties will have in getting restarted along the right tracks. But I am quietly confident that the current crisis will be the catalyst for much needed reform of practices and liberalization of markets, and will accelerate the pace towards them. Openness and accountability of companies, financial institutions and finance ministries; better information about markets, allowing better monitoring by regulators and stock holders; replacement of political intervention with market disciplines - all these processes will help to establish a more stable Asia of sustainable prosperity in the next century.

10. Where does Hong Kong stand in all this? We stand in the heart of it. We are in Asia. But we are Asia with a

difference. The model of economic management that Hong Kong represents is the one that more and more in Asia are realizing that they need to try to follow : a free market under the rule of law; a Government that is clean and believes in prudential supervision not directing the economy; openness and accountability. We have been buffeted by the storms around us, but our system has shown that it is built on firm foundations. We are sticking with it.

11. Our stock market has been battered. The Hang Seng Index is currently about 7,000 points below its peak of 16,673 in August last year. Our property market has fallen back by about 30% from its highest level in October last year. Overall economic growth will be lower in 1998 than the 5.5% we anticipate as the final outcome for 1997, and while we expect to see a modest recovery in domestic exports following substantial investments and improvements in productivity recently, overall our trade figures are unlikely to show the strong percentage growth that we had become accustomed to in the 80's and early 90's. Unemployment is likely to increase from its present level of 2.5%.

12. But as currencies have tumbled around the region, the 1,600 billion Hong Kong dollars in the banking system have not lost their value. When fund managers burned in

South East Asia were desperate for cash, they could turn to Hong Kong's market, which had assets of real value. When New York's stock exchange shut down, Hong Kong stayed open. When pressure built up against our currency, everybody learned the lesson that the parity between the Hong Kong and the US dollar is not kept by an artificial peg, susceptible to political pressure, but by a sensibly based currency board system. Under that system, all Hong Kong dollars issued are backed by US dollar deposits, and an automatic adjustment mechanism, driven by supply and demand, not by central bank intervention, maintains the balance. We have no external debt and we have reserves that are sufficient to back up our currency seven times over. Everyone has seen that the system works. The Government is not going to create uncertainty and risk undermining public confidence by fiddling with it for political reasons. The link is here to stay.

13. The stability of the Hong Kong dollar since the currency board was established in 1983, coupled with our sound market regulation and high quality supervision, has transformed Hong Kong into the world's 5th largest banking centre and the 6th largest securities centre. There would be no competitive gain for Hong Kong if, as some have suggested, we delink our currency and devalue. Unlike Canada, we do

not produce raw materials. We would simply import inflation and undermine the reputation that we have deservedly earned as a bastion of stability in Asia's markets. That could have damaging consequences for the region and for the long term health of our own economy.

14. Our banking system is sound and very well capitalized - we have much higher capital adequacy ratios than elsewhere - and mortgages lending has been controlled. So while the decline in property values is painful, it is not a threat to the integrity of the system. We don't have huge stocks of unused property. Our problem has not been overbuilding - despite the frenetic construction everyone who comes to Hong Kong sees - but trying to find enough land to meet demand for decent homes and high quality office space. The recent drop in property prices and rents, whilst depressing sentiment for now, will in the longer term help our competitiveness by keeping the cost of doing business down. More importantly, it will make decent housing once again affordable by our people, which is an important social objective. The Government is ever mindful of public confidence in the property sector and we will be keeping a close watch over the supply and demand situation.

15. The next couple of years may well be a difficult time for us as economies in our region try to find their feet again and we in Hong Kong have to adjust to the new conditions around us. But apart from the resilience that our financial system has shown, two things give me great cause for comfort.

16. First of all, the whole history of Hong Kong over the last fifty years has been one of adapting and responding creatively to change and difficulty. The spirit of entrepreneurial initiative and willingness to work hard that created our past successes remains undiminished today. To that power of private initiative we can now add the assurance of constant public investment and the support and goodwill of our sovereign power, China. In the past, when faced with lower economic performance, we had to scale back public spending. But for many years now we have been practising the virtues of prudent fiscal management, keeping down rises in Government expenditure in years of high performance to no more than the medium term trend rate of growth in our economy. As a consequence, we have been able to put aside large fiscal reserves - on top of our foreign exchange reserves which is now the world's third largest.

17. So for us, economic downturn now does not mean cutting back on expenditure or increasing taxes, but a continued steady pace of investment, continued low taxes. Our new state of the art airport will open on 6 July this year. But even as we complete our massive project, we are embarking on an equally ambitious programme of railway building to improve commuting within Hong Kong and aid the movement of goods and people between Hong Kong and our economic hinterland in China. We are spending massively on bottom up improvement to our education system. We are extending mother-tongue teaching to improve overall standards of teaching while also recruiting 700 more native English speakers this year to improve English language teaching. Our aim is to promote bilingualism. There is much more, but those examples alone illustrate how, in the midst of today's troubles, we are carrying on improving Hong Kong's prospects for the future, carrying on investing in our ability to work well with the mainland, and to thrive in the international business world.

18. The second thing that gives me comfort is how well our political transition to Chinese sovereignty has gone. The first six months of Hong Kong as a Special Administrative Region of China has not attracted world wide media attention (unlike the six months leading up to 1 July 1997) because the

transition has proved to be a heartening continuity and not a head-line grabbing discontinuity.

19. Little has changed in Hong Kong apart from the change of flags and the fact that we now have a Chief Executive and not a Governor. My own duties as the Chief Secretary for Administration remain essentially the same.

20. I think the first six months could be summarised this way -- The key ingredients of our success story remain firmly rooted in Hong Kong. The rule of law continues to prevail and is being upheld. We have an independent judiciary and our own Court of Final Appeal. Hong Kong people's way of life is unchanged and we continue to enjoy the freedoms and rights guaranteed by the Sino-British Joint Declaration and the Basic Law, our mini-constitution. Political debates remain lively, demonstrations continue to be a natural part of everyday life; and if we as a government don't perform to expectations, then we certainly hear or read about it through the media, which remains as free and robust today as it did before June 30. Perhaps even more so.

21. The Civil Service remains apolitical, clean, and efficient. The Hong Kong Special Administrative Region Government runs its own affairs, and maintains a level playing field for businesses to compete without any

interference from Beijing. Co-operation with our global and regional partners continues to develop and strengthen, as can be seen by the launch of our HK*Canada '98 promotion, our active participation in the World Trade Organisation, in our contribution to the rescue package for the Thai baht, in the APEC Economic Leaders Meeting in Vancouver two months ago, and in the Asian Finance Ministers Meeting in Kuala Lumpur last month.

22. Hong Kong remains one of the safest cities in the world. Last year our crime rate was the lowest we had experienced in the past 24 years. The border between Hong Kong and the mainland continues to be strictly controlled and we remain responsible for our own immigration laws.

23. Of course, the SAR Administration has its problems just as any other Administration of a dynamic fast moving community. And not simply on the economic front or for that matter with the recent outbreak of "bird 'flu". The Administration has faced challenges to the legitimacy of the Provisional Legislative Council and to a number of other decisions we took for the good governance of Hong Kong. We have taken all these in our stride. The important thing is that Hong Kong courts dealt with all these challenges, using the same legal precedents and processes that have been long

established in Hong Kong and with their roots in the English common law system.

24. Those legislators who were displaced at mid-night on 30 June 1997 have put aside their regrets and are now campaigning vigorously for the elections that will be held on 24 May. Those elections are open to all, and will return a legislature that, like the last, is accountable to the electorate and to which the administration is accountable. That process, coupled with a vigorous, free press and with the respect for the rule of law that time has planted in our society, imposes a discipline on public affairs in Hong Kong. It serves to maintain standards in public life and to guard against the insidious merging of public policy with business activity.

25. Before I conclude, let me say a few more words about elections and our legislature. Representative government in Hong Kong will develop in accordance with the time-table laid down in the Basic Law, our constitution. The structure of the new Legislative Council to be elected in May will be the same as that for the 1995 legislature - 20 directly elected members from geographical constituencies, 30 indirectly elected from functional constituencies and 10 from an Election Committee.

26. The indirect elections in functional constituencies are pretty well unique to Hong Kong. They have drawn criticism from the time they were introduced under the British Administration in 1985. They remain, as then, a transitional arrangement, a stepping stone to full universal suffrage which is our ultimate aim.

27. In December last year, for the fourth year in a row, the US based Heritage Foundation and Wall Street Journal assessed Hong Kong as having the freest economy in the world. The report found that there is and I quote "little evidence that becoming a part of China will alter Hong Kong's economic structure significantly. There continues to be little government interference in the market place, taxes remain low and predictable, increases in government spending are linked closely with economic growth, foreign trade still is free and regulation, in addition to being transparent, continue to be applied both uniformly and consistently." end of quote.

28. A few days before the release of the Heritage Foundation Index of Economic Freedom, China had announced that, although not a signatory herself to the two International Conventions on Human Rights, it would arrange on behalf of Hong Kong to submit reports that we prepare to the monitoring bodies. This will give assurance that the

personal freedoms of our citizens will be maintained alongside our economic ones.

29. That combination of personal and economic liberty, exercised within a framework of respect for law and of open, efficient government, has been proved by time in Hong Kong, as it has been in Canada. It is the pattern that our constitution and our hearts commit us to for tomorrow as firmly as for today. It has created a city in which many thousands of Canadians, along with Americans, British, Indians, Japanese and Koreans, have been happy to make their homes alongside our indigenous mix of Cantonese, Shanghainese, Chiu Chow and Hakka, and that is how Hong Kong will continue.

30. Time has reunited Hong Kong with China. Hong Kong people are proud to be Chinese and once again a part of China that is increasingly open and prosperous, able and willing to play its part on the world stage. China's economy continues to grow strongly with little spill over effect from the regional crisis. Hong Kong will benefit from that growth just as in turn we will continue to be China's window on the rest of the world, providing the necessary investments, expertise, managerial know-how, financing and the access to world markets that will help China modernise. Notwithstanding

current difficulties, we are confident of our future, and we invite all Canadians to share in that future.